

NEWS RELEASE



***OFFICE OF THE UNITED STATES ATTORNEY
SOUTHERN DISTRICT OF CALIFORNIA
San Diego, California***

***United States Attorney
Carol C. Lam***

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For Immediate Release

NEWS RELEASE SUMMARY - September 17, 2004

United States Attorney Carol C. Lam announced that San Diego attorney B. Roland Frasier III pled guilty today to charges filed in connection with his role in offshore tax evasion schemes and the laundering of the proceeds of securities fraud violations. Frasier entered his guilty plea in U.S. District Court in San Diego, California, before Magistrate Judge William McCurine, Jr., admitting to one count of aiding and abetting income tax evasion, one count of filing a false tax return, and one count of money laundering.

According to the plea agreement filed in the case, Frasier was a partner in the San Diego law firm of Gage, Frasier & Teeple who specialized in “asset protection planning” using offshore trusts and corporations. One client, Dr. Glenn Kawesch, an ophthalmologist in La Jolla, California, retained Frasier in April 1998 to form a Nevis corporation and a trust. The Nevis corporation was named Sequoia, Ltd. and was owned by a Nevis trust named Questar Trust. Dr. Kawesch was the beneficiary of Questar Trust. In the course of retaining the legal services of Frasier, Dr. Kawesch advised Frasier that he had a large amount of cash from his ophthalmology practice on which he did not want to pay income taxes and which he wanted to protect

from creditors. Frasier agreed to assist Dr. Kawesch in placing the money into a foreign bank account for the purpose of illegally evading Dr. Kawesch's income taxes. In April 1998, Frasier received approximately \$250,000 in cash from Dr. Kawesch which Frasier knew to be income from Dr. Kawesch's ophthalmology practice. Frasier arranged for the transfer of cash into a bank account at the Bank of Nevis in the name of Sequoia, Ltd. Frasier later assisted in repatriating the funds by opening a nominee brokerage account in San Diego, California, on Dr. Kawesch's behalf and transferring the funds held in Nevis. Dr. Kawesch did not pay income tax on the \$250,000 in cash.

Frasier also admitted in connection with his plea that he was involved in a tax evasion scheme when he received \$1 million from Dr. Kawesch in December 1998. Frasier knew the money was income from Dr. Kawesch's ophthalmology practice when Frasier transferred the funds offshore to the Sequoia Ltd. bank account at the Bank of Nevis for the purpose of assisting Dr. Kawesch in illegally evading Dr. Kawesch's 1998 personal income taxes. To further the tax evasion scheme, Frasier executed a fictitious Marketing Service Agreement between Dr. Kawesch's ophthalmology business, Southwest Eye Care, and a foreign nominee corporation named Telco, Ltd. In actuality, the phony Marketing Service Agreement was created solely to disguise a false \$1 million advertising expense which Dr. Kawesch claimed on Southwest Eye Care's corporate tax return. Frasier charged Dr. Kawesch a 9% fee (\$90,000) for these services, Frasier neither recorded the fee as gross receipts to his law firm partnership nor reported it as income to himself on his 1998 personal income tax return.

The plea agreement also details how Frasier filed false personal and corporate income tax returns. Frasier was an officer of several domestic corporations. For the tax years 1997, 1998 and 1999, Frasier diverted business income to third party entities over which he had control, including the Gage, Frasier, & Teeple Client Trust Account and nominee foreign corporations. Frasier did not declare the diverted business income on his individual income tax returns and utilized these funds for personal expenditures. For the tax years 2000 and 2001, Frasier filed corporate tax returns deducting false expenses he characterized as "licensing fees" and "legal expenses," and deposited these funds into the Gage, Frasier & Teeple Client Trust Account which he subsequently used to pay for personal expenditures. Frasier's unreported income totals

in excess of \$3.3 million for the tax years 1997 through 2001, it resulted in a total tax loss of over \$934,000.

According to Assistant United States Attorney Faith A. Devine, who prosecuted the case, in 1999 and 2000, Frasier also represented Zandria Entertainment Networks (“Zandria”), a San Diego Internet company that purported to be in the business of developing two entertainment-related web sites. Frasier was retained to assist Zandria in completing a reverse merger transaction which allowed Zandria to become a publicly traded company. In January 2000, Frasier, acting in his capacity as attorney for Zandria, advised Zandria’s president to enter into a Consulting and Shell Acquisition Agreement with Shesado, Ltd., a Nevis corporation. In the agreement, Shesado agreed to locate a public shell corporation in return for \$300,000 and 7 million shares in free trading stock in Zandria after it became public. At the time the agreement was executed, Frasier did not disclose to Zandria’s president that he (Frasier) exercised dominion and control over the financial accounts of Shesado, that he was one of the beneficiaries of funds transferred to that entity, and that the individual who signed the agreement as president of Shesado was just a nominee acting on behalf of Frasier.

In order to avoid Securities and Exchange Commission (SEC) reporting requirements and to disguise the true beneficiary of the \$300,000 and the 7 million shares of free stock to be provided to Shesado for arranging the acquisition of the public shell, Frasier assisted in preparing a series of sham agreements that transferred ownership of 90 percent of the free trading shares in Zandria that Shesado was to receive under the Consulting Agreement between Shesado and Zandria. These agreements transferred ownership of 5.5 million of the 7 million shares to four Nevis corporations controlled by Frasier. Through a network of telemarketers, this Zandria stock was sold at an inflated price to unsuspecting public investors who were provided false and misleading information about Zandria. Between April 2000 and December 2000, more than 1.3 million shares of inflated Zandria stock was sold into the inflated market, netting more than \$1 million. Frasier caused \$195,000 of the proceeds from this scheme to be transferred to an offshore account located at the Bank of Nevis in the name of Shesado.

United States Attorney Lam stated, “It is sad and inexcusable that a lawyer engaged in the creation of this elaborate tax evasion scheme. A professional license is not a license to steal.”

Denise L. Rubin, IRS Criminal Investigation Division Special Agent in Charge for San Diego stated, “Those who attempt to conceal their true income from the Internal Revenue Service through sham transactions and offshore schemes, or assist others in doing so, run a very high risk of being criminally prosecuted.”

DEFENDANT

B. Roland Frasier

SUMMARY OF CHARGES

Tax Evasion in violation of Title 26, U.S.C. § 7201 - (Count 1)

Maximum penalty is five years in prison and fine not to exceed \$100,000.

Filing a False Tax Return in violation of Title 26, U.S.C. § 7206(1) - (Count 2)

Maximum penalty is three years in prison and fine not to exceed \$100,000.

Engaging in Monetary Transactions in Property Derived from Securities Fraud in violation of Title 18, U.S.C. § 1957 - (Count 3)

Maximum penalty is ten years in prison and fine not to exceed \$500,000 (or twice the value of the property involved in the transaction).

AGENCIES

Internal Revenue Service - Criminal Investigation Division
Federal Bureau of Investigation